



INDUSTRIAL SPECIAL INDEMNITY FUND

Third Quarter Report September 30, 2005 Calendar Year 2005

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The Industrial Special Indemnity Fund (ISIF) files its Third Quarter Report for Calendar Year 2005 pursuant to Idaho Code §72-324. This report consists of the following chapters: Benefits, Claims Adjudication and Administrative Operations.

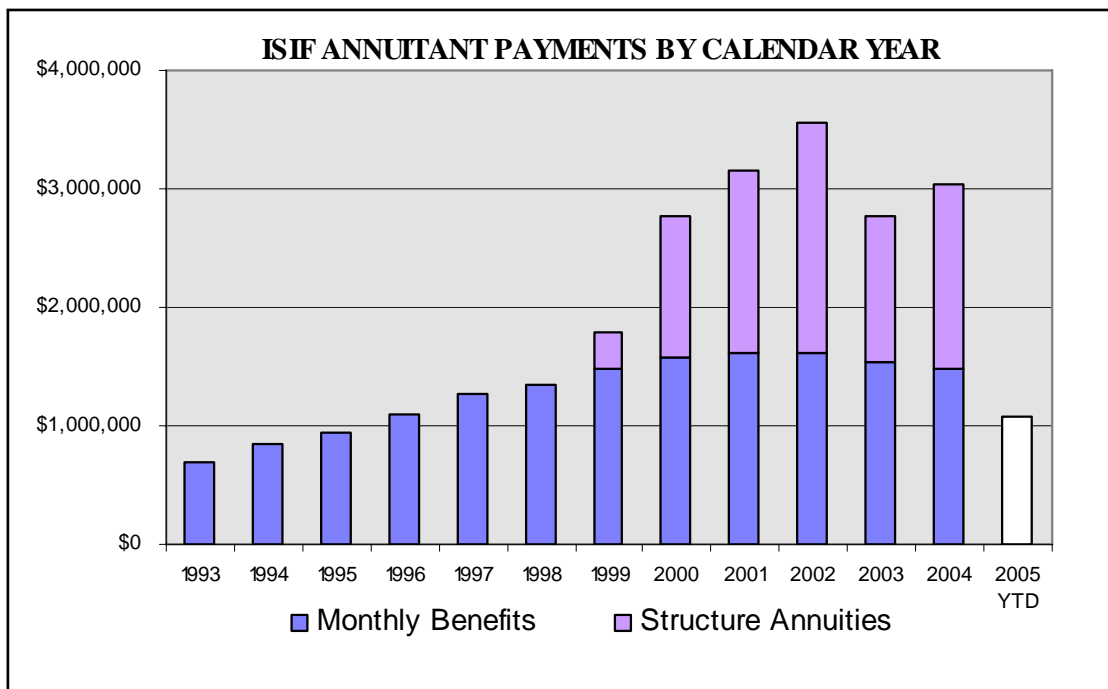
BENEFITS

Annuitant Periodic Benefits

Annuitant benefits are paid to individuals who have been awarded or have negotiated a settlement for periodic monthly benefits. Benefits are paid based on a percentage of the applicable state average weekly wage for year of benefit, the year of the injury and the injured worker's average weekly wage. Most annuitant benefits are also subject to the Carey formula, which apportions total and permanent disability benefits between the ISIF and the employer/surety. Annuitant benefits generally are paid for life. The 2005 state statutory rates for annuitant benefits are as follows:

2005 STATE AVERAGE WEEKLY WAGE	
Base of 45% state average weekly wage =	\$244.35
Base of 60% state average weekly wage =	\$325.80
Base of 67% state average weekly wage =	\$363.81

For the third quarter of calendar year 2005, ISIF had 105 annuitants, in addition to 21 claimants whom are receiving payments from structured annuities and a small make-up allowance from ISIF funds. The 105 annuitants and 21 claimants receiving make-up benefits received a total of \$360,635 in monthly benefits in the third quarter. Annuitant benefits paid in calendar year 2004 was \$3,033,147 plus \$1,551,933 for the purchase of nine structure policies. Structure annuities have been utilized the prior six years as means to fund future annuitant monthly benefits as shown by the graph below.



An arrearage benefit may be owed at the conclusion of a claim and prior to the commencement of current monthly benefits. An arrearage is most likely to occur on judgment loss or consent to entry of judgment claims. Arrearage benefits paid 2005 year to date total \$84,984. In 2004, \$119,169 was paid in arrearage benefits.

MONTHLY & ARREARAGE BENEFIT			
CALENDAR YEAR			
	2005 YTD	2004 YTD	2004 Total
Monthly Annuitant Payments	\$1,072,952	\$1,554,984	\$1,481,214
Structure Settlements	-	1,119,514	1,551,933
Arrearage Benefit	84,984	81,786	119,169
Total Benefit	\$1,157,937	\$2,756,284	\$3,152,316

Settlement Benefits

Lump sum and lump sum/statutory benefits are the two types of settlement options. Lump sum benefits are one time only cash payments issued upon settlement of a claim. Lump sum/statutory benefits are settlements in which a lump sum payment may be made upon settlement; however, some form of future periodic benefit will also be paid.

Future periodic benefits vary in amount and time frame depending upon the terms of settlement. Generally, the periodic payments are based on a percentage of the state's average weekly wage for year of benefit and paid monthly for the life of the claimant. Lump sum/statutory benefit settlements represent substantial lifetime benefits.

LUMP SUM BENEFIT			
CALENDAR YEAR			
	2005 YTD	2004 YTD	2004 Total
No. Claims	19	24	34
Total Lump Sum	\$670,000	\$640,000	\$1,015,000

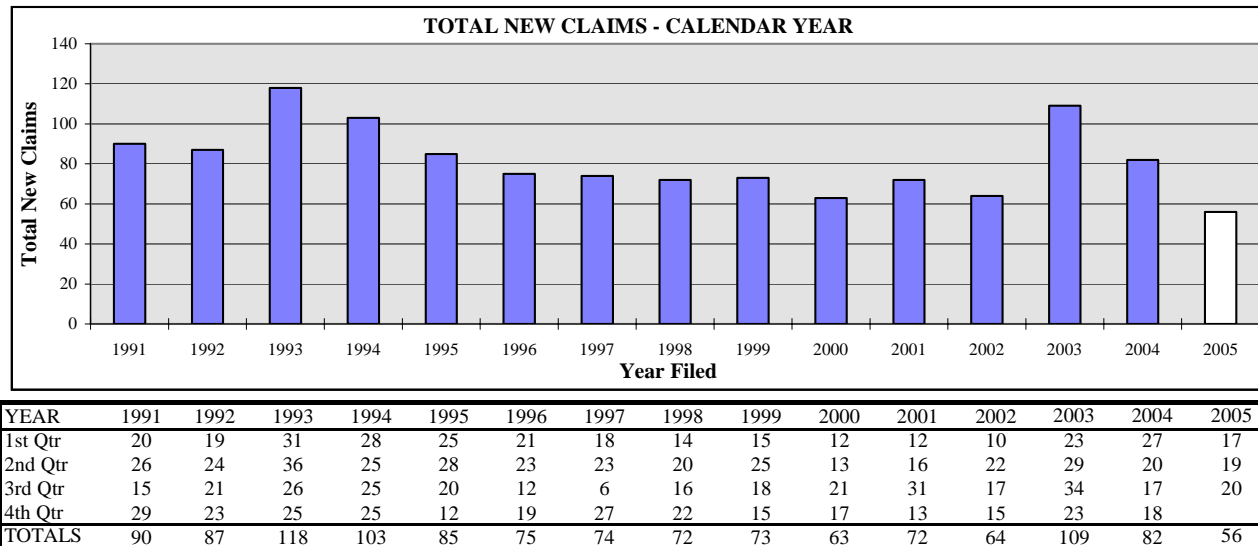
Nineteen claims were closed with lump sum benefits in calendar year to date 2005. In calendar year 2004, thirty-four claims were closed with a lump sum benefit averaging \$29,853 per settlement.

Lump sum/statutory benefit settlements and judgment loss decisions by the Industrial Commission result in additional annuitant claims receiving future periodic payments. Benefits for judgment loss claims are based on a percentage of the state's average weekly wage and are paid for life with annual increases. In 2005 year to date, four claims were closed as lump sum/statutory benefit settlement and one claim was closed as a judgment loss decision. In 2004, seven claims were closed by lump sum/statutory benefit and two by judgment loss decisions.

CLAIMS ADJUDICATION

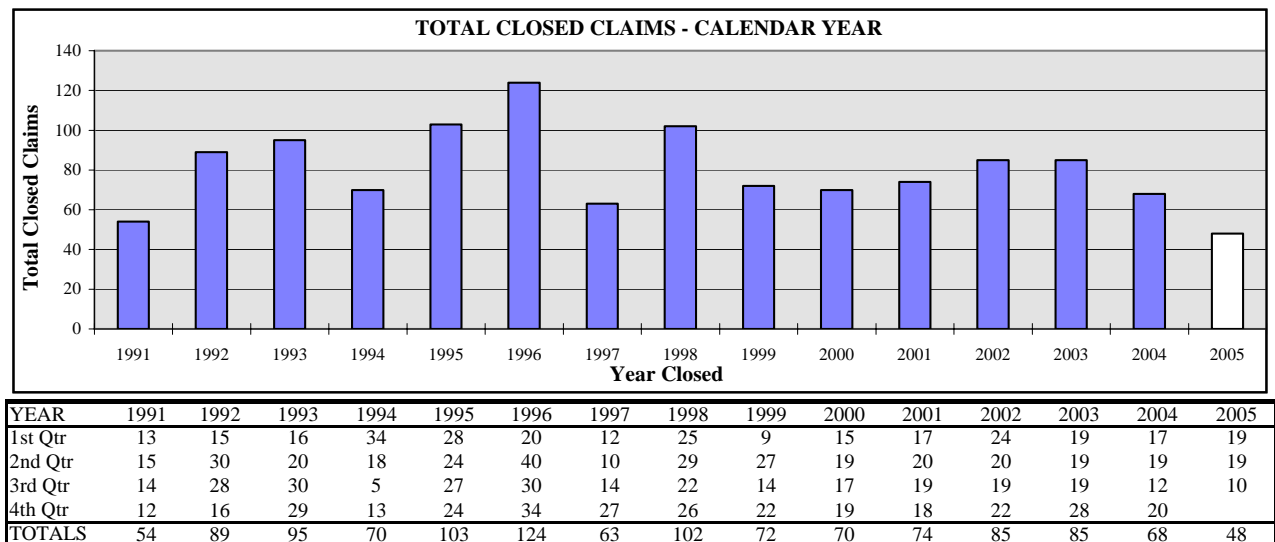
Claims adjudication is a two-fold process involving both the filing of formal or informal claims by claimants and/or employer/sureties alleging ISIF liability, and the final determination of those claims by result outcomes (non-merit, settlement or judgment loss).

New Claim Filings



New claim filings had stabilized over the past seven years averaging 70 filings per year. Claim filings in 2004 were nearly 20% higher than average, 2003 new claim filings were nearly 60% higher. In general, these new claims represent potentially greater liability as workers compensation claims become more complex legally and medically, with economic downturns creating more difficult return to work issues.

Closed Claims



In calendar year 2004, 82 claims were opened and 68 claims were closed resulting in a net of 95 open litigated claims as of December 31, 2004. Open litigated claims on September 30, 2005 total 103.

Result Outcomes

The result outcome category, the number of claims closed by each result outcome, and the percentage of claims closed in each result category is shown below. In year to date 2005, 98% of closed claims were non-merit and settled claims. In 2004, non-merit and settled claims accounted for 97% of the total closed claims. These percentages follow very closely the same result percentages of previous years.

RESULT OUTCOMES					
	2005 YTD	% Total	2004 YTD	2004 Total	% Total
Non-merit Claims:				No.	
Dis W/O	6	13%		4	6%
Dis W/P			2	3	4%
Judg Win	5	10%	4	4	6%
Denied	13	27%	6	14	21%
Settled Claims:					
LSS	19	40%	20	34	50%
LSS/Stat Bens	4	8%	3	7	10%
Judgment Loss:					
Judg Loss	1	2%	1	2	3%
Other:					
Appeal - Affirmed					
Appeal - Reversed					
Appeal-Dismissed					

RESULT OUTCOMES DEFINITION
<p>Non-merit Claims</p> <ul style="list-style-type: none"> * Dismissal without Prejudice - Dismissal by the Industrial Commission but allows the claimant to sue again on the same cause of action. * Dismissal with Prejudice - Final disposition of a claim by the Industrial Commission barring the right to bring another claim on the same cause. * Judgment Win - Final decision by the Industrial Commission on a fully litigated claim determining no liability to the ISIF. * Denied - An in-house denial of ISIF liability. <p>Settled Claims</p> <ul style="list-style-type: none"> * LSS - Lump sum settlement agreement. * LSS/Stat Bens - Lump sum settlement that includes monthly benefits to be paid in the future. <p>Judgment Loss</p> <ul style="list-style-type: none"> * Judgment Loss - Final decision by the Industrial Commission on a fully litigated claim determining ISIF to have liability. <p>Appeal Affirmed</p> <ul style="list-style-type: none"> * Appeal from the Industrial Commission decision affirmed by the State Supreme Court. <p>Appeal Reversed</p> <ul style="list-style-type: none"> * Appeal from the Industrial Commission decision reversed by the State Supreme Court.

LITIGATION COSTS ASSOCIATED WITH SETTLEMENT & JUDGMENT LOSS CLAIMS

LITIGATION COSTS ASSOCIATED WITH SETTLEMENT & JUDGMENT LOSS CLAIMS						
TOTAL LITIGATION COST BY RESULT OUTCOME						
	LUMP SUM		LSS WITH STAT BEN		JUDGMENT LOSS	
	Number Claims	Litigation Cost	Number Claims	Litigation Cost	Number Claims	Litigation Cost
1995	47	210,418	10	97,099	2	49,872
1996	54	314,303	12	86,733	6	53,668
1997	32	237,894	7	25,676	2	28,676
1998	37	212,409	9	45,657	2	30,308
1999	31	111,326	4	33,085	3	82,207
2000	23	93,595	3	4,786	2	34,101
2001	31	193,216	2	5,347	1	11,870
2002	46	66,737	2	8,115	3	43,238
2003	35	106,178	1	984	3	40,499
2004	34	161,926	7	54,065	2	35,928
TOTAL	370	\$1,708,002	57	\$361,546	26	\$410,367
AVERAGE CLAIM COST BY RESULT		\$4,616		\$6,343		\$15,783
2005 YTD	19	\$147,735	4	\$31,199	1	\$10,304
AVERAGE CLAIM COST BY RESULT		\$7,776		\$7,800		\$10,304

LITIGATION COSTS ASSOCIATED WITH NON-MERIT CLAIMS

LITIGATION COSTS ASSOCIATED WITH NON-MERIT CLAIMS								
TOTAL LITIGATION COST BY RESULT OUTCOME								
	DIS W/O		DIS W/P		DENIED		JUDGE W	
	Number Claims	Litigation Cost	Number Claims	Litigation Cost	Number Claims	Litigation Cost	Number Claims	Litigation Cost
1995	21	108,818	1	2,929	11	6,374	4	58,350
1996	16	42,762	0	0	10	16,710	19	350,925
1997	6	22,195	0	0	7	195	7	169,624
1998	17	91,848	2	30,033	21	16,790	12	191,583
1999	8	46,441	0	0	12	14,320	12	192,003
2000	5	46,220	2	13,384	21	2,636	8	175,166
2001	4	28,206	1	7,313	19	1,466	9	161,758
2002	6	61,369	1	13,768	18	3,060	6	135,022
2003	2	2,643	1	259	35	14,007	2	38,194
2004	4	12,190	3	23,729	14	6,124	4	71,204
TOTAL	89	\$462,692	11	\$91,415	168	\$81,682	83	\$1,543,829
AVERAGE CLAIM COST BY RESULT		\$5,199		\$8,310		\$486		\$18,600
2005 YTD	6	\$34,894	0	\$0	13	\$12,352	5	\$44,500
AVERAGE CLAIM COST BY RESULT		\$5,816				\$950		\$8,900

Litigation Expense

Total litigation costs represent the average defense expense of a claim by result outcome category. While many factors affect overall litigation costs, Idaho Code §72-334, the “60 day” rule, has contributed to substantial litigation savings since its passage in 1997. The “60 day” rule requires a party to file a Notice of Intent with supporting documentation with the ISIF 60 days prior to filing a Complaint.

Litigation costs are expended to fourteen sub-object codes as bills are paid during a claim’s adjudicated life. Once the adjudication process is completed, a report is submitted to the Industrial Commission reporting all litigation costs incurred during the life of the claim.

LITIGATION EXPENDITURES QUARTER & CALENDAR YEAR REPORT							
<i>Litigation Expenditures</i>	1st Quarter 2005	2nd Quarter 2005	3rd Quarter 2005	4th Quarter 2005	2005 YTD	2004 YTD	2004 Total
7090-01 Attorney Fees	\$79,881	\$95,813	\$116,977		\$292,671	\$160,944	\$336,118
7090-02 Costs & Expenses	3,383	2,270	4,661		10,314	3,385	8,287
7090-03 Medical/Vocational Reprt	250	48	120		418	380	671
7090-04 Deposition Costs	5,133	4,440	5,955		15,527	10,769	18,892
7090-05 Investigations	256	-	-		256	1,040	2,655
7090-06 Research or Briefs	-	-	-		-	-	-
7090-07 Appeal Attorney Fees	1,031	250	-		1,281	10,100	19,195
7090-08 Appeal Costs & Expenses	40	-	-		40	141	1,267
7090-12 Medical Expenses (IME)	4,676	5251	3,260		13,187	650	650
7090-13 Rehabilitation	7,564	3,788	4,035		15,386	4,575	9,607
7090-14 Adjuster Expenses	543	1,011	2,493		4,047	9,372	13,889
7090-15 Refund	-	-	-		-	-	-
Total Litigation Expenditures	\$102,756	\$112,871	\$137,501		\$353,128	\$201,357	\$411,231

CLAIMS LIABILITY

Unfunded Liabilities

The ISIF exists to pay benefits to workers who have become permanently and totally disabled as the result of a combination of past and present physical impairments. In many cases, ISIF claims are paid as lifetime benefits. In some of those cases, lifetime benefits commence immediately after the determination of total disability has been made. In other cases, when benefits are apportioned via the “Carey” formula, benefits may not start for years in the future.

Because the ISIF operates on a cash or “pay as you go” basis, the cost of future benefits for permanently and totally disabled workers creates an unfunded liability that is not reflected in our normal reporting. Because the obligation is that of a life annuity, the unfunded liabilities can be substantial.

Milliman, Inc., Evaluation Life Annuity Claims

Earlier this year, the fund commissioned the actuarial firm of Milliman, Inc. to value the life annuity claims that are now being paid or will be paid at a future date (the “Carey” apportioned claims). Milliman valued 112 claims, with dates of injury ranging from 1971 through 2001. The results were:

MILLIMAN, INC. EVALUATION	
Undiscounted Value of annuity claims:	\$30,815,556
Present Value of annuity claims ¹ :	\$19,149,124

In addition, unfunded liabilities in the form of incurred but not reported (IBNR) claims also exist. The claim history of the ISIF suggests that, on average, it is 2.7 years from the time a second injury occurs until claim is made. While IBNR has not been actuarially calculated for all future claims, a reasonable estimate for claims ultimately settled by LLS is \$1,917,000². Because of the great variability in the numbers of permanent and total disability claims from year to year, no estimate has been made as yet for those claims.

Also, from 1999 to 2004, the fund purchased life annuities from life insurance companies to pre fund the liability of 34 claims not included above. The approximate purchase price of those annuities was \$7.765 million. While the current liability for those 34 persons is not known, we believe the current value of the annuity contracts is, for all practical purpose, equal to the fund’s obligation to the 34 annuitants.

Present Value of Annuity Claims	\$19,149,124
Approximate Value of IBNR LSS	<u>\$ 1,917,000</u>
Approximate Unfunded Liabilities at 11/1/04 ³	<u>\$21,066,124</u>

The claims valuation was undertaken so that a more accurate picture of the financial position of ISIF could be established. As noted, the financial information is not complete at this time, but it is the intent of the fund to continue to refine the data and report it in such a way that those paying into the system will have a better understanding of the ongoing operations and future obligations of the fund.

ADMINISTRATIVE OPERATIONS

Revenue

The ISIF was dependent on a levy system for revenue funding prior to July 1, 1997. The levy was a percent of certain paid benefits assessed to insurance companies and self-insured employers on individual claims at the time of claim closure. Over time the levy was inadequate to provide the sustained revenue needs of the ISIF.

Due to the prolonged inability of the levy to generate adequate funding, the workers’ compensation industry and the ISIF drafted legislation and changed the funding method. As a result, the Idaho State

¹ The present value assumptions are: Life Expectancy, US 90 Table; Annual Increase in Avg. Weekly Wage 3%; Discount Factor (earnings assumption) 4.25%.

² Average Annual LLS for 1993 – 2004 is \$710,000. Avg. X’s 2.7 yrs IBNR = \$1,917,000.

³ Does not include IBNR for Permanent and Total Disability Claims

Legislature passed a new funding formula based on an annual assessment of two times ISIF's fiscal year expenditures less cash available on June 30. The assessment is paid semi-annually by sureties, self-insured employers and the State Insurance Fund based on their pro-rata assessment share.

ASSESSMENT FORMULA BASED ON FISCAL YEAR									
Fiscal Year	1997	1998	1999	2000	2001	2002	2003	2004	2005
Total Expenditures FY	\$2,437,624	\$2,914,649	\$3,166,801	\$3,952,194	\$4,489,865	\$4,588,902	\$4,902,891	\$4,720,163	\$3,292,704
Cash Available As of 6/30	1,303,876	504,787	2,084,943	3,218,756	3,547,992	4,613,314	5,208,312	5,227,340	6,795,760
Assessment	\$3,571,372	\$5,324,511	\$4,248,659	\$4,685,633	\$5,431,738	\$4,564,490	\$4,597,470	\$4,212,987	-\$210,353

ASSESSMENT TIME LINE				
Assessment Date	Total Assessment	Indemnity Period	Due Date	Payment Amount
June 30, 1997	\$3,571,372	7-1-97 -->12-31-97	Apr-98	\$1,785,686
		1-1-98 --> 6-30-98	Sep-98	\$1,785,686
June 30, 1998	\$5,324,511	7-1-98 -->12-31-98	Apr-99	\$2,662,256
		1-1-99 --> 6-30-99	Sep-99	\$2,662,256
June 30, 1999	\$4,248,659	7-1-99 -->12-31-99	Apr-00	\$2,124,330
		1-1-00 --> 6-30-00	Sep-00	\$2,124,330
June 30, 2000	\$4,685,633	7-1-00 -->12-31-00	Apr-01	\$2,342,817
		1-1-01 --> 6-30-01	Sep-01	\$2,342,817
June 30, 2001	\$5,431,738	7-1-01 -->12-31-01	Apr-02	\$2,715,869
		1-1-02 --> 6-30-02	Sep-02	\$2,715,869
June 30, 2002	\$4,564,490	7-1-02-->12-31-02	Apr-03	\$2,282,245
		1-1-03--> 6-30-03	Sep-03	\$2,282,245
June 30, 2003	\$4,597,470	7-1-03-->12-31-03	Apr-04	\$2,298,735
		1-1-04--> 6-30-04	Sep-04	\$2,298,735
June 30, 2004	\$4,212,987	7-1-04-->12-31-04	Apr-05	\$2,106,494
		1-1-05--> 6-30-05	Sep-05	\$2,106,494
June 30, 2005	-\$210,353	7-1-05-->12-31-05	Apr-06	\$0
		1-1-06--> 6-30-06	Sep-06	\$0

Without a change in revenue funding, the ISIF would have been unable to satisfy its obligations early in 1998. The current revenue system creates a method of funding that is certain.

Expenditure

The Industrial Special Indemnity Fund's administrative operating expenditures include salaries for three full time employees and general office expense. Operational expenditures for 2005 year to date are \$207,163. Total operational expenditures for calendar year 2004 were \$221,075.

Benefit expense reflects all benefits paid in lump sum, arrearage or monthly annuitant payments.

Total litigation costs, which include all costs associated with claims adjudication such as attorney fees and costs, depositions, vocational rehabilitation and investigation, have declined from highs of \$800,000 in 1995. In addition to the significant cost savings, the average number of litigation days per claim has also decreased. Litigation costs however, have substantially increased since calendar year 2003 due in part to higher claim filings and staffing shortage.

REVENUE - EXPENDITURE REPORT					
CALENDAR YEAR 2005					
Revenue	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	2005 YTD
Beginning Cash Available	\$6,108,866	\$5,428,691	\$6,795,081		\$6,108,866
Levy/Interest	-	-	-		-
Assessment/Interest	86,795	2,216,215	646,094		2,949,105
Total Cash Available	\$6,195,662	\$7,644,906	\$7,441,175		\$9,057,971
Expenditure					
Administrative	\$58,148	\$67,930	\$81,083		\$207,161
Benefits	607,505	668,345	552,087		1,827,937
Litigation	102,756	112,871	137,501		353,128
Levy Refund	-	-	-		-
Total Expenditures	\$768,409	\$849,146	\$770,670		\$2,388,226
Encumbered	(1,438)	679	-		759
Calendar Year 2005					
Ending Cash Balance	\$5,428,691	\$6,795,081	\$6,670,504		\$6,670,504

REVENUE - EXPENDITURE REPORT						
FISCAL YEAR 2006						
Revenue	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	2006 Total	2005 Total
Beginning Cash Available	\$6,795,081	-	-	-	-	\$5,227,340
Levy/Interest	646,092	-	-	-	-	-
Assessment/Interest	-	-	-	-	-	4,861,124
Total Cash Available	\$7,441,173	\$0	\$0	\$0	\$0	\$10,088,464
Expenditure						
Administrative	\$81,083	-	-	-	-	\$235,463
Benefits	552,087	-	-	-	-	2,631,739
Litigation	137,501	-	-	-	-	425,501
Levy Refund	-	-	-	-	-	-
Total Expenditures	\$770,669	\$0	\$0	\$0	\$0	\$3,292,704
Encumbered	-	-	-	-	-	679
Fiscal Year 2006						
Ending Cash Balance	\$6,670,504	\$0	\$0	\$0	\$0	\$6,795,081